

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the content of this announcement.*



## **Sustainable Forest Holdings Limited**

**永保林業控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 723)**

### **GRANT OF THE DEBT FACILITY LINE TO THE COMPANY; PROPOSED ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE AND GENERAL MANDATE; AND PROPOSED INCREASE OF AUTHORIZED SHARE CAPITAL**

#### **THE AGREEMENTS**

On 19 December 2011, the Company and the Purchaser (i.e. the Lender) entered into (1) the ELF Agreement, pursuant to which the Purchaser agreed to subscribe for and the Company may require the Purchaser to subscribe for up to HK\$350 million worth of Shares structured under the Equity Facility Line during the Commitment Period; and (2) the DF Agreement, pursuant to which the Lender agreed to grant the Debt Facility to the Company. Details of the Agreements are set out below.

#### **THE ELF AGREEMENT**

Under the ELF Agreement, the Company has been granted the Equity Facility Line, pursuant to which the Purchaser agreed to subscribe for up to HK\$350 million worth of the Advance Shares and the Company may request an Advance at any time during Commitment Period by delivering to the Purchaser an Advance Notice to require the Purchaser to subscribe for the Advance Shares structured under the Equity Facility Line, subject to the terms and conditions of the ELF Agreement.

#### **THE DF AGREEMENT**

Pursuant to the DF Agreement, the Lender agrees to grant the Debt Facility to the Company, comprising the Initial Loan in the principal amount of HK\$30 million and the Renewal Loan in an aggregate maximum amount of up to HK\$80 million which may be re-borrowed up to a maximum of ten (10) times to be granted by the Lender to the Company under and subject to the terms of the DF Agreement.

\* For identification purpose only

## **MANDATES TO ISSUE THE ADVANCE SHARES**

The Company proposes to allot and issue (1) the First Tranche Advance Shares and the Commitment Shares under the General Mandate; and (2) the Second Tranche Advance Shares under the Specific Mandate to be sought at the SGM. Therefore, the issue and allotment of the First Tranche Advance Shares and the Commitment Shares will not be subject to Shareholders' approval while the issue and allotment of the Second Tranche Advance Shares will be subject to Shareholders' approval.

## **PROPOSED INCREASE OF AUTHORIZED SHARE CAPITAL OF THE COMPANY**

As at the date of this announcement, the existing authorised share capital of the Company was HK\$725,340,000 divided into 8,437,500,000 Shares and 27,534,000,000 CPS, of which 6,613,710,698 Shares were in issue and 2,686,861,404 CPS were issued and outstanding. As such, the number of Shares which the Company may issue and allot under the existing unissued authorised share capital of 1,823,789,302 Shares is insufficient to cover the issue of the Advance Shares (assuming all of which will be issued at the Minimum Acceptable Price).

Accordingly, the Company proposed to increase the authorized share capital of the Company from HK\$725,340,000 divided into 8,437,500,000 Shares and 27,534,000,000 CPS to HK\$915,340,000 comprising 12,000,000,000 Shares and 27,534,000,000 CPS by the creation of 3,562,500,000 Shares which will be put to Shareholders' approval at the SGM.

## **GENERAL**

The SGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the grant of the Specific Mandate.

A circular containing, among other things, (i) the proposed increase of the authorized share capital of the Company (ii) the grant of the Specific Mandate and (iii) a notice convening the SGM will be dispatched to the Shareholders as soon as practicable in accordance with the requirements of the Listing Rules.

## **THE AGREEMENTS**

On 19 December 2011, the Company and the Purchaser (i.e. the Lender) entered into (1) the ELF Agreement, pursuant to which the Purchaser agreed to subscribe for and the Company may require the Purchaser to subscribe for up to HK\$350 million worth of Shares structured under the Equity Facility Line during the Commitment Period; and (2) the DF Agreement, pursuant to which the Lender agreed to grant the Debt Facility to the Company. Details of the Agreements are set out below:

## **THE ELF AGREEMENT**

**Date:** 19 December 2011

**Parties:**

Issuer: The Company.

Purchaser: YA Global Master SPV Ltd.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are Independent Third Parties. Based on the information provided by the Purchaser, the Purchaser is managed by Yorkville Advisors, LLC (“**Yorkville**”), which was founded by Mark Angelo in January 2001, an alternative investment manager specializing in providing flexible, innovative debt and equity investments and financing globally to publicly listed companies in a variety of sectors including energy, mining, technology media & telecommunication (TMT) and healthcare.

Yorkville tailors its transactions on an investment by investment basis, which may include debt and equity investments, bridge financings, asset backed notes, equity facilities and, in some cases, straight equity participation.

**The Equity Facility Line granted to the Company**

Under the ELF Agreement, the Company has been granted the Equity Facility Line, pursuant to which the Purchaser agreed to subscribe for up to HK\$350 million worth of the Advance Shares and the Company may request an Advance at any time during Commitment Period by delivering to the Purchaser an Advance Notice to require the Purchaser to subscribe for the Advance Shares structured under the Equity Facility Line, subject to the terms and conditions of the ELF Agreement.

Set out below are details of the Advance:

Term: The Advance may be requested by the Company during the Commitment Period.

Delivery of the Advance Notice: The Company may at any time during the Commitment Period issue and allot Advance Shares to the Purchaser by delivering Advance Notices to the Purchaser. The Advance Notice, once given is irrevocable unless otherwise agreed by the Purchaser.

Save with the prior written consent of the Purchaser, the Company shall not issue an Advance Notice which specifies an Advance Amount which (a) when aggregated with the Net Advance Amounts of all preceding Advances, exceed the ELF Commitment Amount; or (b) exceed the Maximum Advance Amount.

Further, save with the prior written consent of the Purchaser, the Company shall not issue an Advance Notice if:

- (a) all Advance Shares issued under previous Advance Notices have not been Delivered and Admitted;
- (b) the VWAP on the date immediately prior to the Advance Notice Date is below the Minimum Acceptable Price;
- (c) the record date for any dividend or other distribution (whether payable in cash or in specie) of the Company will fall on any day within the period commencing on the day immediately after the last day of an Advance Period and ending on the Advance Closing of any Advance (both dates inclusive);
- (d) there shall be any non-cash dividend or other non-cash distribution declared by the Company but remaining unpaid;
- (e) the Company has made any announcement with respect to (i) any issuance by it of any shares or warrants or any other securities or instruments which require the issue of or are convertible into or exchangeable for any shares or warrants or any other equity or equity-linked securities other than pursuant to the ELF Agreement, (ii) any share capital subdivision, consolidation or any other share capital reorganisation or amendment actions to be taken in each case in relation to the share capital of the Company or any equity securities of the Company, and to be pending or have effect or become effective in the period commencing three (3) Market Days prior to the relevant Advance Period and ending on three (3) Market Days after the relevant Advance Period.

Advance adjustments  
 (“**Advance  
 Adjustments**”)

At the option and sole and absolute discretion of the Purchaser, an Advance Amount (and consequently the number of Advance Shares) may be reduced, by the Purchaser by giving a notice to the Company in writing on the Business Day immediately following the expiry of the Advance Period, by:

- (a) such amount that ensures the aggregate number of Advance Shares proposed to be issued does not exceed 5% of the total issued Shares at the time of Advance Closing in respect of any Advance;
- (b) an amount up to 20% of the relevant Advance Amount for each Market Day during the Advance Period which is an Excluded Day;

- (c) such amount that ensures that the Advance Amount does not exceed the Maximum Advance Amount;
- (d) such amount that ensures that the aggregate number of Advance Shares proposed to be issued is in compliance with the Takeovers Code to the effect that the purchase or issue would not require the Purchaser or parties acting in concert with it (within the meaning of the Takeovers Code) to make a takeover offer for the Company under Rule 26 or other applicable rule of the Takeovers Code; and
- (e) such amount that ensures that the aggregate number of Advance Shares proposed to be issued, when aggregated with the number of Advance Shares issued under the preceding Advances, does not exceed the maximum number of Shares which the Company is authorized to issue under the unused portion of the General Mandate or the Specific Mandate (whichever is applicable).

Purchase Price per  
Advance Share:

Purchase Price will be the higher of: (a) 96% of the lowest daily VWAP for those Shares during the Advance Period (i.e. Market Price); and (b) HK\$0.155556, i.e. the Minimum Acceptable Price which is equal to 87% of the VWAP of the Shares on the Market Day immediately prior to the date of the ELF Agreement.

The Minimum Acceptable Price is the higher of: (a) an amount equal to 87% of the VWAP of the Shares on the Market Day immediately prior to the date of the ELF Agreement; (b) HK\$0.149, i.e. the Floor Price; and (c) the par value of the Share.

The Floor Price is the maximum available price round-off at three (3) decimal place, being a price which is less than 20% discount of the price of the Shares, being the higher of (a) the closing price of the Shares as quoted on the Stock Exchange on the date of the ELF Agreement (i.e. HK\$0.168 per Share) and (b) the average closing price of the Shares of the five (5) consecutive Market Days as quoted on the Stock Exchange immediately prior to the date of the ELF Agreement (i.e. HK\$0.1854 per Share).

Advance Shares:

Based on the ELF Commitment Amount (i.e. HK\$350 million) and the Minimum Acceptable Price of HK\$0.155556 per Advance Share, up to a total of 2,249,993,571 Advance Shares will be allotted and issued upon the subscription in full of the Advance Shares under the ELF Commitment Amount, representing approximately 34.02% of the existing issued share capital of the Company or approximately 25.33% of the issued share capital of the Company as enlarged by the issue and allotment of such 2,249,993,571 Advance Shares and 19,351,556 Commitment Shares.

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Advance Shares.

Subject to Advance Closing, each of the Advance Shares shall be issued to the Purchaser or its nominee for the Purchase Price, fully paid and on terms that such Advance Shares shall, upon issue:

- (i) rank pari passu with, and carry the same rights and privileges as, in all respects, all other Shares;
- (ii) not be subject to any requirement to pay any further amount(s) for the allotment and/or issue of the Advance Shares and not be subject to any security interest (unless created or initiated by the Purchaser itself) or other adverse right held by the Company or any third party;
- (iii) shall entitle the Purchaser to all dividends declared and paid subsequent to the date of issue; and
- (iv) be immediately tradeable by the Purchaser on Admission.

Advance closing  
 (“**Advance  
Closing**”)

On the Market Day immediately following the expiry of the Advance Period, the Purchaser shall notify the Company of the Purchase Price and the number of Advance Shares to be issued, subject to any Advance Adjustments.

On each Advance Closing Date, (a) the Purchaser shall settle the Net Advance Amount in immediately available funds or apply the Net Advance Amount to offset on a dollar-to-dollar basis any outstanding Loan owed to the Purchaser by the Company under the DF Agreement on the Advance Closing Date and (b) subject to (a) above, the Company shall issue and allot to the Purchaser and/or its nominee the Advance Shares free from encumbrances.

Commitment Fee/ Commitment Shares	<p>Subject to obtaining the Listing Approval, the commitment fee (“<b>Commitment Fee</b>”, in the sum of HK\$3,500,000, being 1% of the ELF Commitment Amount) shall be due and payable by the Company on the earlier of: (i) the Commitment Commencement Date; and (ii) the Advance Notice Date of the First Advance. The Commitment Fee shall be payable by way of the issue and Delivery of the credited as fully-paid, Admitted Shares (“<b>Commitment Shares</b>”) tradeable on the Stock Exchange to the Purchaser. The number of Commitment Shares to be allotted and issued shall be determined by dividing the Commitment Fee by 96% (i.e. HK\$0.180864) of the VWAP on the third (3rd) Market Day (i.e. HK\$0.1884) immediately prior to the date of signing the ELF Agreement, i.e. 19,351,556 Commitment Shares under the above calculation.</p> <p>The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Commitment Shares.</p>
Advance commission (“ <b>Advance Commission</b> ”)	<p>Advance Commission, equivalent to an amount of 3% of the applicable Net Advance Amount, shall be due and payable on each Advance Closing Date.</p>
Advance cancellation	<p>In the event that the Company shall engage in any transaction with any third party which has a similar nature and/or structure to the Company as the transactions contemplated in the ELF Agreement (each, a “<b>Similar Transaction</b>”), the Purchaser shall have the right (but not the obligation) by notice to the Company, to terminate the Purchaser’s obligations with respect to any Advance requested by the Company during the period in which any Similar Transaction is subsisting unless the Company had entered into the Similar Transaction with the prior written consent of the Purchaser. For the avoidance of doubt, any placing of equity securities on a non-repeating basis or straight debt facility or non-convertible loan transaction or issue of convertible securities in consideration for any acquisition shall not be a Similar Transaction.</p>
No dividend during Advance Period	<p>The Company agrees with and undertakes to the Purchaser that it shall not declare any non-cash dividend or other distributions during an Advance Period.</p>
Sale restriction	<p>The Purchaser shall not sell, transfer or otherwise dispose of Shares during an Advance Period for any particular Advance for gross proceeds of sale which exceed the Advance requested by the Company in the Advance Notice for that particular Advance.</p>



The Purchaser shall not sell, transfer or otherwise dispose of the Commitment Shares for a period of six (6) months from the date of Delivery and Admission of the Commitment Shares, save that, during any Advance Period, the Purchaser may sell any or part of the Commitment Shares provided that, after the Purchaser has been allotted and issued with the Advance Shares, that the number of Shares subject to the transfer restrictions are of such number as equal to the original number of Commitment Shares.

Save for the above restrictions, the Purchaser may sell, transfer or otherwise dispose of any Shares at any time in its sole and absolute discretion provided that all reasonable steps will be taken by the Purchaser to ensure that such sale, transfer or disposal will not create a disorderly or false market.

Compliance with  
Takeovers Code

The Purchaser may not subscribe for and the Company shall not be under any obligation to issue under the ELF Agreement any Shares to the extent that the subscription or issue would require the Purchaser or parties acting in concert with it (within the meaning of the Takeovers Code) to make a takeover offer for the Company under Rule 26 or other applicable rule of the Takeovers Code.

The Purchase Price (and the mechanism for determining the Purchase Price) and the Minimum Acceptable Price (and after taking into consideration the Commitment Fee and the Advance Commission) set out above were determined based on the arm's length negotiations between the Company and the Purchaser, with reference to current market sentiment and the historical Share price. The Directors consider that the Purchase Price and the Minimum Acceptable Price (and after taking into consideration the Commitment Fee and the Advance Commission) are fair and reasonable.

## **Conditions Precedent**

### ***Conditions Precedent for each Advance***

The right of the Company to serve an Advance Notice and the obligation of the Purchaser to effect completion in respect of an Advance (whether for the issue of the First Tranche Advance Shares and Second Tranche Advance Shares) is subject to conditions precedent in respect of such Advance, which conditions are summarized below:

*(a) Advance Notice and conditions precedent*

- (i) among other documents, the Purchaser has received an Advance Notice; and
- (ii) in respect of the First Advance, the First Advance Conditions Precedent set out below have been satisfied;



*(b) Representations etc.*

as at each Advance Notice Date and each Advance Closing Date and each Market Day during the Advance Period the Purchaser is reasonably satisfied that each representation and warranty made by the Company in the ELF Agreement is true in all material respects;

*(c) No Specified Event*

no Specified Event is continuing or will result from the making of the relevant Advance;

*(d) Shareholder approvals and authorisations*

without limiting any other condition precedent:

(i) any shareholder approvals and announcements:

(a) necessary for the issue and Admission and Delivery of the Advance Shares; and

(b) which are otherwise required by any applicable law or the Listing Rules; and

(ii) all necessary authorisations for the issue and Admission and Delivery of the Advance Shares,

have been obtained or made and are all in full force and effect;

*(e) No documents required*

no prospectus or other listing document (other than any Company announcement or circular) is required in respect of the Advance Shares other than those documents required in connection with the authorisations referred to in the ELF Agreement;

*(f) No change in law or adverse decision*

(i) no statute, rule, etc. has been enacted by any government agency that prohibits or directly and adversely affects any of the transactions contemplated by the ELF Agreement; and

(ii) no litigation, arbitration, tax claim or other proceeding has been commenced that will or may reasonably be expected to have the effect of prohibiting or adversely affecting any of the transactions contemplated by the ELF Agreement;

(g) *Non-Exchange quotation or listing*

if any equity securities of the Company are quoted or the Company is listed on any financial market in addition to the Stock Exchange, the Company having used its best endeavours to procure that the issue of the Advance Shares does not contravene any:

- (i) provision of any existing agreement to which the Company is a party or of any applicable law of the relevant jurisdiction(s);
- (ii) provision of any applicable rule of the relevant financial market(s);
- (iii) provision of any applicable rule of the relevant government agency(ies);
- (iv) judicial order; or
- (v) provision of any corporate consent, contractual consent or governmental consent relating to the Company or the issue of the Advance Shares;

(h) *Suspension*

as at each Advance Notice Date and each Advance Closing Date and each Market Day during the Advance Period:

- (i) the trading of the Shares is not suspended and the Company has not received any notice from the Stock Exchange threatening the continued Admission and/or tradeability of the Shares on the Stock Exchange; and
- (ii) the Company has no knowledge of any event which might cause the Admission and/or tradeability of the Shares on the Stock Exchange to be suspended, withdrawn or otherwise restricted or terminated or which might cause the Stock Exchange to refuse Admission of the Advance Shares;

(i) *Fees*

all Commitment Shares and Advance Commission due and payable by the Company under the ELF Agreement have been or will be duly and timely paid (or Delivered) in accordance with the ELF Agreement;

(j) *Material Adverse Effect*

as at each Advance Notice Date and each Advance Closing Date and each Market Day during the Advance Period the Purchaser is satisfied that no event has occurred which may have a Material Adverse Effect;

(k) *Admission*

all Advance Shares issued pursuant to prior Advances having been Delivered and remaining Admitted.

### ***First Advance Conditions Precedent***

Unless otherwise waived by the Purchaser in writing, the right of the Company to issue the Advance Notice in respect of the First Advance and the obligations of the Purchaser under the ELF Agreement are subject to the condition precedent (“**First Advance Conditions Precedent**”) that the Purchaser notifies the Company that it has received such documents including (among other documents) a Director’s certificate certifying that the Company is solvent and attaching with various corporate documents of the Company, such approvals and authorizations in connection with the ELF Agreement and the transactions contemplated thereunder and a Bermuda law legal opinion from counsel to the Company, on or before 5.00 pm Hong Kong time on the Business Day immediately prior to the Commitment Commencement Date or such date as may be mutually agreed between the Purchaser and the Company in writing (“**Initial CP End Date**”).

### ***Condition Precedent to issue Second Tranche Advance Shares***

The right of the Company to serve an Advance Notice and the obligation of the Purchaser to effect completion of issue of Second Tranche Advance Shares is subject to the Company having obtained the Specific Mandate.

The ELF Agreement shall automatically terminate at 5.00 p.m. (Hong Kong time) on the Initial CP End Date unless the Company has fulfilled all of the First Advance Conditions Precedent. Upon termination, the ELF Agreement shall lapse without liability to any party hereunder save for any rights and liabilities of any party accrued prior to such lapse.

### **Termination of the ELF Agreement**

If the ELF Agreement has not otherwise been terminated pursuant to the terms thereof, it shall automatically be terminated on the earlier of:

- (i) the time immediately following the Advance Closing of an Advance, which, when aggregated with the Net Advance Amounts of all previous Advances, results in an amount equal to the ELF Commitment Amount; and
- (ii) the date being the third (3rd) anniversary of the Commitment Commencement Date (“**Commitment Expiry Date**”).

### ***Termination by Purchaser***

The Purchaser may immediately terminate the ELF Agreement by written notice to the Company at any time following the occurrence of a Specified Event.

If the Purchaser terminates the ELF Agreement at a time after the Company has delivered an Advance Notice to the Purchaser but prior to the Advance Closing of the Advance relating to such Advance Notice, then such Advance Notice shall be deemed null and void and/or of no effect against either party, without prejudice or limitation to any accrued claims that either party may have against the other.

### ***Termination by Company***

The Company may at any time terminate the ELF Agreement by providing not less than two (2) Business Days' written notice to the Purchaser. If the Company terminates the ELF Agreement at a time after it has delivered an Advance Notice to the Purchaser but prior to the Advance Closing of the relevant Advance then, if the Purchaser so elects, the ELF Agreement will be deemed to terminate on the Business Day immediately following the relevant Advance Closing Date.

### **Specified Events**

Under the ELF Agreement, a specified event ("**Specified Event**") shall include (but not limited to) the following event: (a) the Company fails to pay any amount when due or fails to comply with any obligations under the ELF Agreement; (b) the Shares are suspended from Admission or trading on the Stock Exchange for an aggregate of ten (10) or more Market Days during any period of three (3) consecutive months (other than suspension pending issue of an announcement or circular regarding any bona fide transaction entered into or to be entered into by the Group); (c) a representation, warranty or statement by or on behalf of a member of the Group under the ELF Agreement is not true or is misleading in a material respect when made or repeated in respect of any fact matter or circumstance and if capable of remedy, is not remedied, which has or is likely to have a Material Adverse Effect; (d) winding up, arrangements with creditors or analogous events against a member of the Group or a member of the Group ceases or suspends the conduct of all or a substantial part of its business or disposes of a substantial part of its assets; (e) enforcement against all of or a substantial part of any material assets of a member of the Group or analogous events; (f) all or any substantial part of the assets of a member of the Group is compulsorily acquired by a government agency or under law, or analogous events; (g) the Company ceases to be an operating entity that is listed on the Stock Exchange; (h) an authorisation or shareholder approval which is required for the performance by the Company of the ELF Agreement; or the validity and enforceability of the ELF Agreement does not exist or is revoked; (i) the ELF Agreement becomes void or illegal; (j) other event having a Material Adverse Effect.

### **THE DF AGREEMENT**

**Date:** 19 December 2011

**Parties:**

Borrower: The Company.

Lender: YA Global Master SPV Ltd.

Pursuant to the DF Agreement, the Lender agrees to grant the Debt Facility to the Company, comprising the Initial Loan and the Renewal Loan, details terms of principal amount, availability period and repayment thereof are set out below.

## Initial Loan

Principal amount: HK\$30 million

Availability period: The period from and including the date of the DF Agreement to and including the date falling 30 days from (and including) the date of the DF Agreement.

Repayment: The Company shall repay the Initial Loan in five (5) equal instalments set out in the table below, which may, at the election of the Company, be repayable (a) in cash, (b) by using the Advance Amount of Predated Advance on a dollar-to-dollar basis, or (c) partially in cash and partially using the Advance Amount of Predated Advance.

<b>Repayment instalments ("Repayment Instalment(s)")</b>	<b>Repayment Date (Note)</b>	<b>Repayment Instalment (HK\$)</b>
1st	21	\$6,000,000
2nd	31	\$6,000,000
3rd	41	\$6,000,000
4th	51	\$6,000,000
Final Repayment Date	61	<u>\$6,000,000</u>
	<b>TOTAL</b>	<b><u>HK\$30,000,000</u></b>

*Note:* All dates are expressed in Share Trading Days immediately following the drawdown date of the Initial Loan.

The obligation of the Lender to effect completion in respect of a Predated Advance Notice and the Purchase Price for and number of Predated Advance Shares to be allotted, issued and delivered to the Lender shall be on the terms and subject to conditions applicable to and in connection with the Advance in the ELF Agreement.

## Renewal Loan

Maximum principal amount of each Renewal Loan:

Up to HK\$80 million, which shall be determined as the principal set out in the column opposite the average daily trading value as calculated by multiplying the aggregate trading volume of Shares on a particular day by the VWAP on that day (“ADTV”) during the 15 Business Days’ period immediately prior to the date of a request to be delivered by the Company to the Lender for Renewal Loan (“ADTV Renewal Testing Period”) pursuant to the table below:

<b>ADTV during the ADTV Renewal Testing Period</b>	<b>Principal Amount of Renewal Loan</b>
Less than HK\$2,750,000	HK\$0
Greater than or equal to HK\$2,750,000 and less than HK\$5,500,000	HK\$15,000,000
Greater than or equal to HK\$5,500,000 and less than HK\$8,000,000	HK\$30,000,000
Greater than or equal to HK\$8,000,000 and less than HK\$12,500,000	HK\$40,000,000
Greater than or equal to HK\$12,500,000 and less than HK\$17,500,000	HK\$50,000,000
Greater than or equal to HK\$17,500,000 and less than HK\$22,500,000	HK\$70,000,000
Greater than HK\$22,500,000	HK\$80,000,000

The Company may only borrow the Renewal Loan (which is actually provided in accordance with the terms of the DF Agreement) up to a maximum of ten (10) times, provided that the ELF Agreement continues to be valid and subsisting and the outstanding and unutilised ELF Commitment Amount shall not be less than the principal amount of the Renewal Loan.

Availability period:

The period from and including the date from the Final Repayment Date of a prior Loan to and including the earlier of: (i) the date the Commitment Period expires; and (ii) 61 Shares Trading Days prior to the Commitment Expiry Date.

Availability of each Renewal Loan: Each Renewal Loan shall only be available on or after the full repayment of a previous Loan, provided that during the period from the date the Lender confirming the availability of a Renewal Loan to the drawdown date of the Renewal Loan, the trading of the Shares is not suspended and the Company has no knowledge of any event which might cause the trading of the Shares on Stock Exchange to be suspended or otherwise restricted or terminated and no other event has occurred which may have a Material Adverse Effect, and subject to the following funding discretion of the Lender:

- (a) if the Purchase Price with respect to the immediately preceding Advance (including a Predated Advance), delivered pursuant to the ELF Agreement, is 15% or above, greater than the lower of (x) the average of the VWAPs for each of the 5 consecutive Market Days prior to the drawdown date of the Renewal Loan and (y) the VWAP on the Market Day prior to the drawdown date of the Renewal Loan; or
- (b) the ADTV during the ADTV Renewal Testing Period is at or below 90% of the lowest ADTV (i.e. HK\$2,750,000) that would allow the Company to request the Renewal Loan in the principal amount so requested.

Provided the conditions set out in (a) and (b) above do not apply and provided all other terms and conditions of the DF Agreement are satisfied, the Lender shall be obligated to advance the Renewal Loan to the Company.

Repayment: The repayment options and schedule for the Initial Loan shall be applied to the repayment of each Renewal Loan, provided that the amount of Repayment Instalments shall be the aggregate principal amount of that Renewal Loan divided by 5 equal instalments.

### **Common terms for both Initial Loan and Renewal Loan**

Interest: No interest shall accrue on a Loan prior to the Final Repayment Date.

Drawdown fee: The Company shall pay to the Lender a drawdown fee equal to 3.25% of each Loan made available on drawdown date.



## Default

The occurrence of any of certain events or conditions summarized below shall constitute an event of default (an “**Default**”) under the DF Agreement:

(a) the Company fails to pay any amount when due or fails to comply with any obligations under the Agreements; (b) any representation or statement made or deemed to be made by the Company under the Agreements is or proves to have been incorrect or misleading in any material respect and if capable of remedy, is not remedied; (c) cross default of other financial indebtedness of the Group exceeding a given threshold; (d) insolvency of or any insolvency proceedings are taken against a member of the Group; (e) enforcement by creditor against any assets of a member of the Group exceeding a given threshold; (f) expropriation by a government authority in relation to the Group or its assets; (g) cessation of business of the Company; (h) unlawfulness, invalidity of or the Company repudiates or rescinds the Agreements; (i) any litigation in relation to the Agreements or against the Group or its assets having a Material Adverse Effect; (j) any event or circumstance occurs which the Lender reasonably believes has or is reasonably likely to have a Material Adverse Effect; or (k) sale of all or substantially all of the assets of the Group.

On and at any time after the occurrence of a Default, the Lender may, by notice to the Company:

- (a) cancel the amount which the Lender has agreed to lend to the Company under the DF Agreement and reduce it to zero;
- (b) declare that all or part of the Loans be immediately due and payable and be payable on demand;
- (c) exercise any or all of its rights under the Agreements; and/or
- (d) exercise its rights to subscribe for Shares under any Predated Advance Notice.

## Deficit

On the Business Day immediately following the earlier of (a) the repayment or prepayment of any outstanding aggregate Loan under the DF Agreement, and (b) the Final Repayment Date, the Lender shall calculate and notify the Company of the Net Payment Difference (as defined below, if any), and the Company shall within two (2) Share Trading Days following such day pay the Lender the Net Payment Difference (if any).

“Net Payment Difference” means an amount equal to the aggregate of all the Shortfall Adjustments (as defined below) arising from all Predated Advances, the proceeds of which were used for the repayment of a Loan.

“Shortfall Adjustments” means, in relation to a Predated Advance and a Predated Advance Period, an amount to be determined as follows:

$$A = B/0.97 - [(C / D) \times E]$$

Where:

A = Shortfall Adjustment;

B = Repayment Instalment;

C = Predated Advance amount as stated in the relevant Predated Advance Notice;

D = 96% of the Minimum Acceptable Price, and

E = 96% of the lowest daily VWAP during the Predated Advance Period.

If D is less than E, then D = E

### **Conditions precedent**

#### ***Conditions precedent for the Initial Loan***

Availability of the Initial Loan is subject to the receipt by the Lender of such documents (among other documents) including the certified copy of the Board resolution approving, inter alia, the Agreements, Bermuda law legal opinion from counsel to the Company and five (5) Predated Advance Notices each with an Advance Amount of HK\$6,000,000.

#### ***Further conditions precedent for the Initial Loan and Renewal Loan***

Availability of the Initial Loan and each Renewal Loan is subject to the further conditions precedent summarized below:

- (a) no Default is continuing or would result from the proposed Loan under the DF Agreement;
- (b) certain representations made by the Company under the DF Agreement are true in all material respects;
- (c) no material adverse change in the business, assets, operations or financial condition of the Company is continuing or would result from the proposed Loan under the DF Agreement;
- (d) the Company has delivered to the Lender five (5) Predated Advance Notices in such Advance Amounts in accordance with the DF Agreement corresponding to the relevant aggregate amount requested in a request for the Initial Loan or Renewal Loan and confirmed by the Lender; and

- (e) the Company has delivered to the Lender a written confirmation that any shareholder approvals, announcements and authorisations for the issue, Admission and Delivery of the Predated Advance Shares and in connection with the transactions contemplated under the Agreements have been obtained and are all in full force and effect.

## **REASON FOR ENTERING INTO THE AGREEMENTS**

The Company is an investment holding company. The Group is principally engaged in the business of tree felling and sustainable forest management.

Assuming subscription in full of the Advance Shares under the ELF Commitment Amount, the gross proceeds and net proceeds to be raised by the Company therefrom will be HK\$350 million (i.e. the ELF Commitment Amount) and about HK\$347.5 million (on the assumption that all Advance Shares will be issued at the Minimum Acceptable Price per Advance Share with the net price per Advance Share of HK\$0.1544), respectively. The Company intends to apply the net proceeds from the allotment and issue of the Advance Shares for settlement of the Loan under the DF Agreement, for supporting trading activities and for general corporate and working capital purposes of the Group.

The Directors are of the view that any allotment and issue of the Advance Shares offer a good opportunity to raise additional capital for the Company. Given that the Advance Amount may be used to offset on a dollar-to-dollar basis any outstanding Loan owed to the Lender by the Company under the DF Agreement, capitalization of Loan may strengthen the financial position of the Group and broaden the shareholder base of the Company. In addition, given the Company may elect to repay the Loan either in cash or by using the Advance Amount of Predated Advance (or a combination of both), it is considered that the Group will have flexibility in settling such debt taking into consideration factors including the cashflow position of the Group at the material time. Accordingly, the Directors consider that the Agreements and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; and the terms of the Agreements are fair and reasonable.

## **FUND RAISING EXERCISE BY THE COMPANY IN THE PAST TWELVE MONTHS**

Other than the issue of warrants (“**Warrants**”) which will entitle the holder thereof to subscribe for up to 300,000,000 Shares (“**Warrants Shares**”) under the warrant subscription agreement dated 22 September 2011 (as supplemented and amended by the first supplemental agreement entered into between the parties dated 31 October 2011 and the second supplemental agreement entered into between the parties dated 18 November 2011) (“**Warrant Subscription Agreement**”) and entered into between the Company and CITIC Merchant Co., Limited (“**Subscriber**”), the Company has not conducted any fund raising activity in the 12 months immediately preceding the date of this announcement. The subscription of the Warrants was completed on 19 December 2011. As at the date of this announcement, no Warrant Shares have been issued and allotted upon exercise of the subscription rights attaching to the Warrants under the Warrant Subscription Agreement.

## CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this announcement, the Company had 6,613,710,698 Shares in issue. On the assumption that no Warrant Shares have been issued and allotted, the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after the issue and allotment of the Commitment Shares and the subscription in full of the Advance Shares under the ELF Commitment Amount at the Minimum Acceptable Price are as follows:

	As at the date of announcement		Immediately after the issue and allotment of the Commitment Shares and the subscription in full of the Advance Shares under the ELF Commitment Amount at the Minimum Acceptable Price	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Assure Gain International Limited ( <i>Note 1</i> )	1,006,762,347	15.22%	1,006,762,347	11.33%
Winner Global Holdings Limited ( <i>Note 2</i> )	320,041,100	4.84%	320,041,100	3.60%
Splendid Asset Holdings Limited ( <i>Note 3</i> )	331,100,463	5.00%	331,100,463	3.73%
Li Zhixiong ( <i>Note 4</i> ) Purchaser	380,000,000	5.75%	380,000,000	4.28%
	—	—	2,269,345,127	25.55%
<b>Sub-total</b>	<b>2,037,903,910</b>	<b>30.81%</b>	<b>4,307,249,037</b>	<b>48.49%</b>
Public Shareholders	<u>4,575,806,788</u>	<u>69.19%</u>	<u>4,575,806,788</u>	<u>51.51%</u>
<b>Total</b>	<b><u>6,613,710,698</u></b>	<b><u>100%</u></b>	<b><u>8,883,055,825</u></b>	<b><u>100%</u></b>

Notes:

1. Assure Gain International Limited is wholly owned by Ms. Loh Jiah Yee, Katherine, Chairman, managing Director and executive Director of the Company. As at the date of this announcement, it also holds 1,208,013,390 preference shares carrying rights to convert into 226,502,510 Shares.
2. Winner Global Holdings Limited is owned as to 100% by Assure Gain International Limited.
3. Splendid Asset Holdings Limited is owned as to 100% by Assure Gain International Limited.
4. As at the date of this announcement, Li Zhixiong, an executive Director, beneficially holds 380,000,000 Shares. Mr. Li is also entitled to up to an additional of 389,230,769 Shares which may be issued by the Company to him pursuant to a sale and purchase agreement dated 21 March 2011, details of which were disclosed in the announcement of the Company dated 21 March 2011.

## **MANDATE TO ISSUE THE ADVANCE SHARES**

The Company proposes to allot and issue (1) the First Tranche Advance Shares and the Commitment Shares under the General Mandate; and (2) the Second Tranche Advance Shares under the Specific Mandate to be sought at the SGM. Therefore, the issue and allotment of the First Tranche Advance Shares and the Commitment Shares will not be subject to Shareholders' approval while the issue and allotment of the Second Tranche Advance Shares will be subject to Shareholders' approval.

Pursuant to the Warrant Subscription Agreement, the Subscriber has agreed to subscribe for Warrants which will entitle the holder thereof to subscribe for up to 300,000,000 Warrant Shares. The subscription of the Warrants was completed on 19 December 2011. As at the date of this announcement, no Warrant Shares have been issued and allotted upon exercise of the subscription rights attaching to the Warrants under the Warrant Subscription Agreement. As at the date of this announcement, the Directors have not allotted and issued any Shares under the General Mandate or otherwise utilized the General Mandate save for those disclosed above and the amount of unutilized General Mandate is 797,012,157 Shares.

## **PROPOSED INCREASE OF AUTHORIZED SHARE CAPITAL OF THE COMPANY**

As at the date of this announcement, the existing authorised share capital of the Company was HK\$725,340,000 divided into 8,437,500,000 Shares and 27,534,000,000 convertible preference shares of HK\$0.01 each ("CPS"), of which 6,613,710,698 Shares were in issue and 2,686,861,404 CPS were issued and outstanding. As such, the number of Shares which the Company may issue and allot under the existing unissued authorised share capital of 1,823,789,302 Shares is insufficient to cover the issue of the Advance Shares (assuming all of which will be issued at the Minimum Acceptable Price).

Accordingly, the Company proposed to increase the authorized share capital of the Company from HK\$725,340,000 divided into 8,437,500,000 Shares and 27,534,000,000 CPS to HK\$915,340,000 comprising 12,000,000,000 Shares and 27,534,000,000 CPS by the creation of 3,562,500,000 Shares which will be put to Shareholders' approval at the SGM.

## **GENERAL**

The SGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the grant of the Specific Mandate.

A circular containing, among other things, (i) the proposed increase of the authorized share capital of the Company (ii) the grant of the Specific Mandate and (iii) a notice convening the SGM will be dispatched to the Shareholders as soon as practicable in accordance with the requirements of the Listing Rules.

## DEFINITION

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Admission”	the grant by the Stock Exchange of a listing of and permission to deal in securities on the Stock Exchange and “Admitted” has a corresponding meaning
“Advance”	the issuance and allotment of the Advance Shares in accordance with the terms of the ELF Agreement
“Advance Amount”	the gross amount payable by the Purchaser to the Company in connection with an Advance (before taking into account any Advance Adjustments) as set out in the Advance Notice
“Advance Closing Date”	in relation to an Advance, the fourth (4th) Market Day immediately after the later of:  (a) the final Market Day of a relevant Advance Period; and  (b) the day on which the Advance Shares to be issued pursuant to the relevant Advance Notice are Admitted (or such later Market Day as the Purchaser and the Company may mutually agree in writing), on which Advance Closing of the relevant Advance is due to occur
“Advance Notice”	a duly completed and executed notice from the Company to the Purchaser for requesting an Advance
“Advance Notice Date”	the date the Purchaser receives an Advance Notice from the Company
“Advance Period”	in relation to an Advance, the period comprising the five (5) consecutive Market Days, commencing on the Market Day (excluding the Excluded Day) immediately following the relevant Advance Notice Date, provided that such period may be reduced by the Purchaser subject to the prior written consent of the Company
“Advance Shares”	in relation to an Advance, the number of new Shares to be allotted and issued by the Company to the Purchaser as determined by dividing the Advance Amount by the Purchase Price and subject to the Advance Adjustments, such Shares comprise the First Tranche Advance Shares and the Second Tranche Advance Shares
“Agreements”	collectively, the ELF Agreement and the DF Agreement
“Board”	the board of Directors

“Business Day(s)”	any day(s) (except any Saturday, Sunday or public holiday) on which banks and Stock Exchange are open for business and trading in Hong Kong
“Company”	Sustainable Forest Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange
“Commitment Commencement Date”	16 January 2012 or the date falling three (3) Market Days after the Company shall have obtained the Listing Approval of all Advance Shares for the First Advance and the Commitment Shares, whichever is earlier
“Commitment Period”	the period commencing on the Commitment Commencement Date and expiring on the earliest of (i) the date on which the Company has made Advances of an aggregate amount equal to the ELF Commitment Amount; (ii) the date the ELF Agreement is terminated pursuant to the terms thereof; and (iii) the date being the third (3rd) anniversary of the Commitment Commencement Date
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Debt Facility”	the debt facility granted by the Lender to the Company for the Initial Loan and the Renewal Loan
“Delivered”	in relation to a Share, the completion of all of the following: <ul style="list-style-type: none"> <li>(i) the allotment and issue on the terms of the ELF Agreement of the Share to the Purchaser or a nominee appointed by the Purchaser; and</li> <li>(ii) the name of the Purchaser or a nominee appointed by the Purchaser having been entered on the register of members of the Company as owner of the Share and a corresponding original share certificate for the Share having been received by the Purchaser or its agent,</li> </ul> and “Deliver” has a corresponding meaning
“DF Agreement”	the debt facility agreement entered into between the Company and the Lender on 19 December 2011 in relation to the Debt Facility
“Director(s)”	the director(s) of the Company
“ELF Agreement”	the equity line facility agreement entered into between the Company and the Purchaser on 19 December 2011 in relation to the Equity Facility Line



“ELF Commitment Amount”	HK\$350,000,000
“Equity Facility Line”	the equity facility line granted by the Purchaser to the Company which shall be accessed, at the option of the Company, by the delivery to the Purchaser Advance Notice(s) during the Commitment Period in accordance with the terms and conditions set forth in the ELF Agreement
“Excluded Day”	(a) any Market Day in an Advance Period on which the VWAP of the Shares for that day (as reported by Bloomberg LP) is less than the Minimum Acceptable Price; and (b) any Market Day in an Advance Period on which Shares are not tradeable on the Stock Exchange
“Final Repayment Date”	a date falling on the 61st Share Trading Day immediately following a drawdown date of a Loan
“First Advance”	the first Advance to be made pursuant to the terms of the ELF Agreement
“First Tranche Advance Shares”	Advance Shares not exceeding such number issuable under the unutilized General Mandate less the number of the Commitment Shares, i.e. 777,660,601 as at the date of the ELF Agreement
“Floor Price”	HK\$0.149, being the maximum available price round-off at three (3) decimal place, being a price which is less than 20% discount of the price of the Shares, of the higher of (a) the closing price of the Shares as quoted on the Stock Exchange on the date of the ELF Agreement and (b) the average closing price of the Shares of the five (5) consecutive Market Days as quoted on the Stock Exchange immediately prior to the date of the ELF Agreement
“General Mandate”	the general mandate granted to the Directors by the Shareholders on the annual general meeting held on 25 August 2011 to exercise all powers of the Company to allot, issue and otherwise deal with new Shares not exceeding 20% of the issued share capital of the Company as at that date (i.e. 1,097,012,157 Shares)
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent ThirdParty(ies)”	third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and its connected persons

“Initial Loan”	a term loan in an amount of HK\$30,000,000 to be granted by the Lender to the Company under and subject to the terms of the DF Agreement
“Lender” or “Purchaser”	YA Global Master SPV Ltd., a company incorporated in the Cayman Islands with limited liability
“Listing Approval”	any one or more of the approval(s) of the listing committee of the Stock Exchange for the listing of, and permission to deal in, all Advance Shares and the Commitment Shares, which may be applied for and given separately for the Commitment Shares, the First Tranche Advance Shares and the Second Tranche Advance Shares
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Loan”	a loan made or to be made under the Debt Facility or the principal amount outstanding at any time of that loan and includes an Initial Loan or any Renewal Loan
“Market Day(s)”	day(s) on which the Stock Exchange is open for securities trading
“Market Price”	in relation to Shares and an Advance Period, the lowest daily VWAP for those Shares during the Advance Period
“Material Adverse Effect”	a material adverse effect on the validity or enforceability of any Agreements, or the ability of the Company to perform its obligations under any Agreements or on the financial condition or business of the Group as a whole
“Maximum Advance Amount”	<p>an amount equal to the lesser of: (a) HK\$15,000,000; and (b) 100% of the ADTV for the period of fifteen (15) Shares Trading Days immediately prior to the Advance Notice Date, provided always that:</p> <p>(i) the amount of the Maximum Advance Amount cannot exceed the ELF Commitment Amount less the aggregate of all preceding Net Advance Amounts; and</p> <p>(ii) the amount of the Maximum Advance Amount may be increased up to a maximum amount of HK\$20,000,000 with respect to any Advance with the prior written consent of the Purchaser</p>
“Minimum Acceptable Price”	HK\$0.155556, being the higher of: (a) an amount equal to 87% of the VWAP of the Shares on the Market Day immediately prior to the date of the ELF Agreement; (b) the Floor Price; and (c) the par value of the Share

“Net Advance Amount”	in relation to an Advance, the Advance Amount after taking into account any Advance Adjustments
“Predated Advance”	an Advance to be made in respect of the Advance Amount and at the times set out in the DF Agreement
“Predated Advance Notice”	an Advance Notice in relation to a Predated Advance
“Predated Advance Period”	the period comprising five (5) consecutive Share Trading Days commencing on the Share Trading Day immediately following the date of a Predated Advance Notice
“Predated Advance Shares”	in relation to a Predated Advance, the Shares to be delivered to the Lender on a closing date of Predated Advance pursuant to a Predated Advance Notice
“Purchase Price”	the price which is the higher of: (a) 96% of the Market Price; and (b) the Minimum Acceptable Price
“Renewal Loan”	a term loan in an aggregate maximum amount of up to HK\$80,000,000, which may be re-borrowed up to a maximum of ten (10) times to be granted by the Lender to the Company under and subject to the terms of the DF Agreement
“Second Tranche Advance Shares”	such number of Advance Shares representing the difference between (a) the maximum number of Advance Shares that may fall to be allotted and issued under the ELF Commitment Amount and (b) the number of First Tranche Advance Shares, which Advance Shares shall be issued under Specific Mandate
“SGM”	the special general meeting of the Company to be convened and held to seek Shareholders’ approval for among other purposes, increase of the authorized share capital of the Company and the Specific Mandate
“Shareholder(s)”	registered holder(s) of the Shares in issue
“Share(s)”	ordinary share(s) of HK\$0.0533 each in the share capital of the Company
“Shares Trading Day”	a Business Day on which Shares are tradable on the Stock Exchange
“Specific Mandate”	the mandate to allot and issue the Second Tranche Advance Shares to be sought at the SGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers of Hong Kong

“VWAP”	in relation to a Market Day on which Shares are tradeable on the Stock Exchange, the volume weighted average price per Share traded on the Stock Exchange on that Market Day, as reported by Bloomberg LP for the period commencing at 10.00 a.m. and ending at 4.00 p.m. (Hong Kong time) of that Market Day
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

By order of the Board  
**Sustainable Forest Holdings Limited**  
**LOH Jiah Yee, Katherine**  
*Chairman*

Hong Kong, 19 December 2011

*As at the date of this announcement, the Board comprises Ms. Loh Jiah Yee, Katherine, Ms. Fletcher Yurk Nam, Sandy, Mr. Shih Chiu, David, Mr. Li Zhixiong and Mr. Leung Siu Hung, Joel as executive directors; Mr. Leung Chau Ping, Paul as non-executive director; and Mr. John Tewksbury Banigan, Mr. Keung Paul Hinsum and Mr. Donald Smith Worthley as independent non-executive directors.*